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C O N F I D E N T I A L SECTION 01 OF 02 LJUBLJANA 000386

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TAGS: [ECON](#) [EINV](#) [ENRG](#) [ETRD](#) [SI](#)

SUBJECT: SLOVENIAN ENERGY: THE RUSSIANS ARE COMING?

REF: A. LJUBLJANA 0171

- [1B.](#) LJUBLJANA 0214
- [1C.](#) 10 FEBRUARY WEEKLY UPDATE
- [1D.](#) 7 APRIL WEEKLY UPDATE
- [1E.](#) 26 MAY LJUBLJANA WEEKLY UPDATE
- [1F.](#) LJUBLJANA 0378

Classified By: COM Thomas B. Robertson, reasons 1.4(b) and (d).

[11.](#) (C) Summary: Following a visit in May to Moscow by Slovene Prime Minister Janez Jansa and several members of his cabinet and a large commercial contingent (ref E), and Gazprom CEO Alexey Miller's visit last week to Slovenia, Slovene media reports a flurry of meetings, discussions, and rumors of proposals which indicate that Gazprom is interested in gaining a foothold in Slovenia. Post understands that the principal areas of interest for Gazprom are investment in defunct oil refinery Nafta Lendava, a possible partial takeover of petroleum retailer Petrol, and also the construction of a new natural gas pipeline across Slovenia. Despite nearly daily meetings over the past week, and because of Slovenia's reticence toward foreign investment and previously failed agreements with the Russians, it is unclear whether Gazprom's plans for Slovenia will be realized. End Summary.

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Gas pipeline or Gas Terminals?  
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[12.](#) (SBU) As noted ref A, compared with some of its central and eastern European neighbors, Slovenia's current energy relationship with Russia is limited and extends only to its purchase of natural gas. While 60 percent of Slovenia's needs are supplied by Russia, natural gas accounts only for approximately 15 percent of total domestic energy usage. With Gazprom's interest in deepening its involvement in the Slovene energy sector, however, Slovenia's reliance on Russian energy sources could change in the coming years. During his recent visit to Slovenia, Gazprom CEO Miller indicated he was interested in investing in Slovenia's natural gas transportation infrastructure. Post contacts note that existing pipelines could not meet demand should Slovenia decide to raise its usage of natural gas, a strategic direction that appears increasingly likely.

[13.](#) (SBU) In an effort to decrease Slovenia's reliance on coal as a source of electricity production, Minister of the Economy Andrej Vizjak has expressed interest in the construction of natural gas-fired power plants to supplant or

replace some portion of coal-based domestic energy supply. The GOS has completed feasibility studies for two new facilities, both of which would require a significant increase in current natural gas transport capacity and, presumably, a greater reliance on Russia as an energy supplier.

¶4. (SBU) Any pipeline that would be constructed would be designed to supply Slovenia as well as Italy and potentially other neighbors. Press reports indicate that the construction of an additional gas pipeline on Slovenian territory would be more palatable than the current Italian plan for two liquefied natural gas (LNG) holding terminals near the Italian-Slovene border in the Gulf of Trieste. There is no evidence to indicate that the Gazprom proposal was specifically designed to counter the terminal plans. In press reports, however, Vizjak noted that the pipeline would almost certainly eliminate the need to build the maritime facilities. As reported ref D, the plans to build terminals in the Adriatic has met with stern opposition in Slovenia, whose residents fear a potential negative environmental impact.

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Refinery Resurrection and Possible Petrol Investment  
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¶5. (SBU) Gazprom may also be interested in a possible purchase of Nafta Lendava, a GOS-owned oil refinery in northeast Slovenia. Nafta Lendava is currently not in use (ref A). Press reports indicate, however, that Gazprom would be interested in taking over and restarting the refinery, with a potential capital investment of USD 1 billion. In addition, during his visit to Slovenia, Gazprom's Miller met

LJUBLJANA 00000386 002 OF 002

with Marko Kryzanowski, the CEO of petroleum products retailer (and largest Slovene company) Petrol. In a press conference, Kryzanowski noted that he discussed sourcing strategies with Miller but did not/not talk about potential capital tieups. Joze Zagozen, head of the Petrol supervisory board (and CEO of Slovene electricity distributor HSE) said, however, that all potential offers would be reviewed carefully. (Note: In spite of Kryzanowski's assertions, Post understands that Gazprom is interested in at least a possible partial acquisition of Petrol. Previous Petrol and Gazprom CEOs have held discussions about possible investments, to little avail. End note.)

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Comment  
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¶6. (C) Details of Gazprom's overtures have been sketchy. The frequency of the meetings in recent days, however, indicates that both sides are evaluating their options very intensely. It remains to be seen whether a deeper relationship with a Russian energy giant is in Slovenia's best interest particularly in light of the supply problems which Gazprom's customers in Europe experienced earlier this year. Slovenia currently has a relatively diversified energy sourcing strategy (ref A), making the GOS's recent uptick in interest in Russia as a more significant energy partner somewhat surprising.

¶7. (C) Interest by Gazprom in Slovenia dates back at least a decade, but it is unclear whether any of Gazprom's current plans might come to fruition. The GOS historically has been slow to act on sale of state-owned assets, particularly to foreign investors (ref F). Both the refinery Nafta Lendava and the retailer Petrol are owned by the state and, given domestic resistance to the sale of strategic assets to foreigners, it would be surprising if the GOS would allow the purchase of a majority share by Russian interests. In the wake of the failed further privatization of Slovenia's largest national bank (ref F), it is uncertain whether there

is sufficient political will within Prime Minister Jansa's government to follow through with concrete plans or whether the recent visits will remain mere discussions. Post will watch with great interest to see whether a Russian investor will be able to succeed where others have not. End comment.  
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